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SUBJECT: SCENESETTER FOR CODEL GREGG

11. (SBU) Senator Gregg and Delegation:

Mission India warmly welcomes you. Following soon after Prime Minister Singh's historic official state visit to Washington, your visit coincides with a rapid expansion in the U.S.-India partnership, encompassing everything from agriculture to defense cooperation, and reflecting widespread support in both countries for broadening existing ties and building new ones. India and the United States have begun working more closely than ever, exemplified by our parallel efforts to assist in Afghan reconstruction and unprecedented cooperation on counterterrorism following the "26/11" terrorist attacks in Mumbai just over a year ago. This cooperation is made possible in part by the goodwill generated by the Civil Nuclear Cooperation Agreement. During your meetings, we hope you can help focus the Indian government on the several key priorities that emerged from the PM's visit, including cooperation on counterterrorism, clean energy development, and global and bilateral economic policies. India's position at the Copenhagen climate change negotiations has remained relatively inflexible, although it is seeking to avoid playing a spoiler role. You can expect to hear justifications for India's rejection of binding emissions targets and of international monitoring, as well as questions about U.S. funding to help less developed countries mitigate and adapt.

Strategic Dialogue: Broader and Deeper Than Ever Before
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12. (SBU) Secretary Clinton launched the current phase of rapid expansion in the U.S.-India relationship during her visit in July when she and Minister of External Affairs S.M. Krishna announced a new Strategic Dialogue structured around five pillars and 18 sub-dialogues. During Prime Minister Manmohan Singh's historic first official state visit of the Obama Administration in November, our governments announced major outcomes representing each of the five pillars of the Dialogue. Highlights include a Counterterrorism Cooperation Initiative; a Green Partnership including MOUs on Energy Security, Energy Efficiency, Clean Energy, Wind and Solar

Power, and Climate Change; an MOI on Agricultural Cooperation and Food Security; the Obama-Singh 21st Century Knowledge Initiative; a meeting of the CEO Forum; and an MOU for the establishment of a Global Disease Detection (GDD) Center. We look forward to building on these solid foundations leading toward a visit by President Obama at some point in 2010.

Internal Politics: A Raucous Democracy

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¶3. (SBU) We have a true partner in the current Indian government led by Prime Minister Singh, but its capabilities are not without limits. The strong performance by the Congress Party and its United Progressive Alliance (UPA) allies in India's national elections gave Prime Minister Singh's UPA coalition government a mandate to govern and -- freed from dependence on half-hearted allies on the Left -- to promote a closer relationship with the United States. The fallout over a joint statement from Singh's July 16 Sharm el-Sheikh meeting with Pakistani Prime Minister Gilani cut short the honeymoon period, providing an opportunity for Singh's otherwise fractured political opponents and dissidents within his own ruling coalition. This move won temporary political points for the opposition Bharatiya Janata Party (BJP), but that party's steady summer implosion facilitated the UPA government's rebound, resulting in the Congress Party's victory in the October 13 Haryana and Maharashtra state elections. The Sharm debacle reminded the Prime Minister of his political constraints despite his clear mandate. The tentativeness of the government has been on

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display again during the November-December session of Parliament that adjourned December 18, during which the fractious opposition managed to unite over populist causes such as food price increases and a handful of narrow domestic political issues to put the government on the defensive.

External Relations: Afghanistan and Pakistan

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¶4. (SBU) Under Prime Minister Singh's leadership, India is emerging as a leader in the region and in Asia at large. India encourages democracy in the region, but is concerned about continuing political instability in both Nepal and Bangladesh and the humanitarian situation in Sri Lanka. We have followed closely as India and China have sought warmer relations through periodic dialogue and increased trade, but Indo-China ties are strained by contentious border issues and a sense of mutual suspicion. However, India's greatest external challenges remain with its neighbors to the West.

¶5. (SBU) India is proud of its ongoing "development partnership" with post-Taliban Afghanistan. The GOI claims to have given USD 1.3 billion to Afghanistan since 2001. Projects have included road construction, food aid to children, power transmission, and telecommunications assistance. India has also expressed interest in increasing military training and assistance, and in providing training for Afghan police. While expressing appreciation for India's efforts in Afghanistan, you could also advocate increased coordination of Indian aid with the USG and other international partners in order to maximize impact as we pursue a common goal of increased Afghan capacity. Indian reaction to the President's December 1 speech on the way forward in Afghanistan was that the U.S. is headed for the exit sooner rather than later, and that this had significant consequences for India's own security.

¶6. (SBU) The Indians understand our message about the importance of resuming a robust dialogue with Pakistan and the necessity of increased GOI communication to reassure Pakistani officials about India's good intentions in Afghanistan. The response we have consistently received is that the GOI will not re-engage in meaningful dialogue until Pakistan demonstrates tangible results in acting against

terror directed at India. The prevailing Indian media assumption is that a Pakistani hand is behind much of the plotting against India, including the October 8 bombing of the Indian Embassy in Kabul, and this perception will likely make the GOI even less eager to rush into resuming the sort of forward-leaning communications that took place several years ago with the Musharraf government. Indian reluctance to re-engage may be further compounded by the case of alleged Lashkar-e-Tayyiba operative David Coleman Headley arrested by the FBI in Chicago, which fuels speculation of an official Pakistani connection to 2008 Mumbai attacks. The Headley case continues to dominate media coverage in India, with ever wilder conspiracy theories getting play, including most recently speculation that Headley was a CIA double agent.

17. (SBU) Viewed from Delhi, Pakistan's post-Mumbai law enforcement actions against Pakistani nationals suspected of involvement in attacks against India has thus far been ineffectual and appears focused more on show than substance. Pakistan's arrest of seven Mumbai suspects was clearly a step in the right direction, but the in camera trial has been delayed multiple times over the course of many months and is now on its third judge. The August 3 Pakistani court decision to adjourn indefinitely on a legal technicality a criminal case against LeT/JuD leader Hafiz Saeed -- a man perceived by Indians in much the same way as Osama bin Laden is perceived by Americans -- the alleged Mumbai attack mastermind, was

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clearly a step backward. We also continue to hear a drumbeat of reports that future spectacular Mumbai-style attacks against India may be in the offing. The GOI must also factor lingering public anger over Mumbai into its calculus in re-engaging with Pakistan. However much PM Singh would like to resume the dialogue, he must be wary of getting too far out in front of public and political-class opinion, as occurred following the Sharm joint statement. The July 23 Sharm agreement was met with media outrage and significant dissent from some within the ruling coalition and Singh's own Congress party who felt the agreement was precipitous and a sign of Indian weakness. The fall-out might have toppled a weaker and more fragmented government. PM Singh will need political cover to resume the dialogue.

Civil Nuclear Cooperation

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18. (SBU) India viewed the signing of the U.S.-India Civil Nuclear Cooperation Agreement as an historic event and an essential part of transforming our relationship. India has since followed through on its nonproliferation commitments by signing its IAEA Safeguards Agreement and concluding an Additional Protocol with the IAEA. We are working with the government to implement commercial cooperation, providing U.S. firms access to an estimated USD 150 billion market and leading to the creation of thousands of high-skilled jobs, as well as providing India's growing economy with access to clean energy. The Agreement no longer dominates the headlines, but the goodwill it generated has contributed to our improved relationship across the board and to India's gradual movement toward the nonproliferation mainstream.

19. (SBU) The Indian government made substantial progress on implementing commercial cooperation ahead of PM Singh's visit to Washington, though some important hurdles remain. In recent months, India announced two favorable reactor park sites for U.S. firms in the states of Gujarat and Andhra Pradesh, and submitted its declaration of safeguarded facilities to the IAEA. We have held five rounds of reprocessing consultations pursuant to the 123 Agreement, and hope to conclude negotiations soon. The government responded to our request for Part 810 license assurances on the eve of Singh's visit, a top priority of U.S. industry, and we await clarification on two issues. The cabinet approved draft liability legislation, a top priority for U.S. firms, but Parliament was not able to pass the legislation in the

just-concluded session.

The Defense Relationship

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¶10. (SBU) The U.S.-India defense relationship has progressed rapidly since sanctions were removed in 2000 following India's 1998 nuclear test. Today's relationship is focused on bilateral exercises, Subject Matter Expert Exchanges (SMEEs), and personal exchanges at schools, conferences and seminars. Billion-dollar defense sales are a growing component and a superb opportunity to expand the relationship. Exercises are the most visible of the activities between our two militaries. In October, the Army completed its most ambitious exercise with the deployment of 17 Strykers to India for a two week exercise which included live firing of a combined mechanized task force for the first time. Simultaneously, the Air Force had five transport aircraft participating in exercise COPE INDIA held in Agra that included a Special Forces component. The Navy conducts an annual exercise, Malabar, that has been conducted both bilaterally and multilaterally. The Marines hold an annual exercise with the Indian Army, Shatrujeet, which focuses on amphibious operations. The Indians have been cooperating

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with the Joint POW/MIA Accountability Command for recovery of remains from downed Second World War planes in the politically sensitive state of Arunachal Pradesh. To date, we are still working on obtaining permission to repatriate all of the remains so as to properly identify and recover lost Airmen.

¶11. (SBU) Defense sales are growing quickly from roughly one billion USD in 2008, to over two billion so far this year. There is good potential for over four billion in sales next year, especially with the recent Ministry of Defense approval to pursue the C-17. For the first time, India can afford (politically and financially) to purchase front line U.S. equipment. They recognize the quality of U.S. systems and have been astounded by the mission capable rates quoted for U.S. aircraft compared to their older Russian inventory. They are becoming increasingly sophisticated in their analysis of costs and now use life-cycle cost instead of cost on delivery for some purchases, giving U.S. products an opportunity to beat cheaply made competitors. Most important, the July 2009 agreement on End Use Monitoring (EUM) has opened the door for FMS sales at a time when there is growing frustration with Russia - previously India's supplier of choice. The near doubling in cost and extensive delays in delivery of the ex-Russian aircraft carrier GORSHKOV, issues with transfer of technology on the T-90 tank, and universal problems with spare parts have convinced the GOI that new sources of supply are needed to balance Russia. Given an opportunity, we ask that you endorse Indian purchases of U.S. equipment as an important part of our defense relationship and support our ongoing sales efforts.

Economic Ties

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¶12. (SBU) The U.S.-India economic relationship, for decades practically nonexistent, has grown rapidly and has significant potential to expand further. At the same time, India is an increasingly important player at the table in multilateral economic fora, from the WTO Doha Round negotiations and the G-20, World Bank and IMF to the UNFCCC negotiations in Copenhagen. While India was seen in the United States as a spoiler when the World Trade Organization Doha Development Agenda talks broke down in July 2008, India's new Commerce Minister showed leadership and significantly improved the tone of discussions when he hosted a Doha "Mini-ministerial" meeting in September, attended by U.S. Trade Representative Kirk.

¶13. (U) The United States is India's largest trading partner

in goods and services and one of its largest foreign investors. Investment has surged between our countries in recent years, prompting agreement to launch negotiations on a bilateral investment treaty. U.S. exports to India has increased five-fold from USD 3.6 billion in 2000 to USD 17.7 billion last year. Two-way merchandise trade grew to a record USD 44.4 billion in 2008, a 76-percent increase from 2005. Reflecting the global economic downturn, exports to India fell 9.7 percent in January-September 2009 (to USD 8 billion), but Indian exports to the United States fell more sharply. Thus, the U.S. trade deficit with India fell 43.8 percent to just USD 3.2 billion in January-September 2009. Despite the size of its economy, India was only the United States' 18th largest trading partner in 2008. One of the major goals of the U.S.-India Trade Policy Forum is to resolve barriers to trade and investment to improve this ranking.

¶14. (U) India was somewhat shielded from the global economic downturn due to its conservative central bank and SEC-equivalent restricting many of the derivative innovations

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linked to the global financial crisis, and its relatively low reliance on exports. However, although India's "Wall Street" was less affected, its "Main Street" bore the brunt of the downturn, with slower growth, tighter access to credit, declining exports, higher unemployment, and less investment. In response, India's central bank and SEC-equivalent relaxed many of its restrictions on foreign capital inflows and investment procedures and the GOI enacted several fiscal stimulus programs, both pre- and post-election, to boost economic growth.

¶15. (SBU) The Indian economy continues to be one of fastest growing economies in the world, even as the global slowdown and financial crunch moderated GDP growth from nine percent in fiscal year (FY) 2007-08 to 6.7 percent in FY 2008-09, which ended March 31. Growth in the second quarter was 7.9 percent and growth in fiscal year 2009-10 is now expected to be in the seven percent range. The Commerce Ministry announced December 15 that it expects to see a return to positive export growth soon. With the expected return of higher growth rates, rising inflation, and the highest fiscal deficit (approximately 11 percent of GDP) in 20 years, the GOI has begun to reverse some the measures it enacted during the financial crisis and has announced plans to decrease subsidies and increase disinvestment. Lagging agricultural productivity and poor -- but improving -- infrastructure continue to constrain growth. Accordingly, the top Indian economic priorities remain physical and human infrastructure development and spreading economic benefits into rural India.

¶16. (U) The United States continues to have concerns about agricultural trade with India. The recently released Senate Finance Committee Report on Indian agricultural trade barriers -- a U.S. ITC investigation -- highlighted the essentially defensive agricultural trade policy long promoted by the Indian government. The United States is particularly interested in gaining marketing access for U.S. dairy products which are blocked due to a series of non-scientific GOI rules. Discussions are ongoing, but the effort to resolve long-standing agricultural trade issues is a Mission priority.

U.S. Assistance: Health, Education, Energy, Water and Sanitation, Agriculture, Law and Human Rights
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¶17. (U) Although India's economy has been growing 7-9 percent annually since 2004, this significant and impressive growth is only part of the story. India has an estimated 456 million people, or 42 percent of its population, living below the official poverty line of USD 1.25 per day, and a staggering 828 million people, or 75.6 percent of the population, living on less than USD 2.00 per day. This puts

India's poverty levels above those of sub-Saharan Africa where 74 percent of the population lives on less than USD 2.00 per day. The rural and urban poor in India do not have the education, work force skills, social capital or access to primary health care and basic infrastructure, including water, sanitation and electricity, to participate fully in and benefit from India's economic growth. They are generally not the focus of private investment. Deep rooted gender inequities further undermine India's potential to convert its economic growth into human development. According to the World Economic Forum's Gender Index, India ranks 113 out of 130 countries and is in the bottom five countries for economic participation and opportunity, and health and survival. The GOI and the private sector are eager for international best practices that U.S. foreign assistance offers to address this glaring economic disparity. The U.S. assistance program builds the capacity of local partners including government institutions, private sector, and civil

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society/non-governmental organizations by promoting replicable models and engaging in policy dialogue that leads to higher development impact and improved resource allocations. U.S. foreign assistance, coupled with Government of India and private sector resources, improves India's ability to achieve sustainable growth and reduce poverty.

¶18. (U) Health: India's growing population of more than one billion strains resources and complicates disease prevention. More than two million Indian children under age 5 die every year, most from preventable causes, while avoidable complications during childbirth kill approximately 78,000 Indian women every year. Family planning choices are limited, with more than two thirds of women opting for sterilization as their method for family planning. The health of the urban poor is considerably worse than the urban middle and high income groups and is as bad as that of the rural population. 2.47 million people in India are estimated to be HIV positive. Although eradication efforts are promising, India remains one of four countries where polio continues. One fourth of the world's TB cases are in India, which is now the number one high-burden country for Multi Drug Resistant (MDR) TB. The U.S. assistance program, through USAID and the Department of Health and Human Services, works in close collaboration with the Government of India and state governments in many health activities designed to increase access to family health care, nourish needy mothers and children, fight infectious diseases, and prevent HIV/AIDS.

¶19. (U) Education: India has achieved significant progress in increasing access to basic education. However, improving the quality and relevance of education remains a major challenge for the public education system. Despite massive government investment in the sector, student learning levels continue to be alarmingly low across most schools in the country, leading to large numbers of children dropping out of school. Approximately 50.8 percent of children in India drop out at the elementary level, while at the secondary level, as many as 62 percent drop out. Enrollment in higher and technical education is only about 11 percent. High drop out rates at all levels negatively impacts long term employment opportunities. U.S. assistance to India, through USAID, provides quality education to marginalized children, including Muslim minorities, promote the use of technology to improve the teaching and learning, and support interventions that link education to employment. In the area of higher education, India continues to lead the world as a source of foreign students studying in the U.S. Our governments are working to support the rapid expansion of formal linkages between American and Indian institutions of higher education, as well as focusing on expanding the role of community colleges and other programs linking education to employment opportunities throughout India, particularly in traditionally under-served communities.

¶20. (U) Energy and Climate Change: India is a major producer of Green House Gas (GHG) emissions, with the power sector the largest single contributor. Even as it takes domestic steps to reduce emissions, India's focus on development and poverty reduction leads it to resist in international climate negotiations any CO2 emissions targets that could retard its economic growth. Indian power stations, characterized by old equipment, inefficient technologies, poor maintenance practices, and low quality coal, are some of the highest GHG emitters in the world. The key challenge therefore is to move India towards a low carbon development path with an emphasis on renewable energy and the latest technologies for cleaner coal. Nearly 20 percent of villages and 32 percent of households do not have access to electricity. Development

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of an efficient and modern energy system is also necessary to sustain India's economic growth and social development. U.S. assistance is designed to significantly advance India's quest for better infrastructure by reducing electricity distribution losses, improving end-use efficiency, and advancing market-based solutions for the co-management of energy and water.

¶21. (U) Water and Sanitation: For many Indian cities and towns facing the challenges of growing populations and urban expansion, providing direct access to clean, affordable, and reliable drinking water is a significant challenge. Currently, only a fraction of the urban population has direct access to clean piped water, often because of inadequate and inefficient supply systems. The delivery of water and sanitation services in cities is particularly important because of their direct impact on human health and productivity. To help address the urgent need for investment in water and sanitation infrastructure across the country, USAID is testing two sustainable models for providing affordable and equitable access to safe drinking water and sanitation.

¶22. (U) Agriculture: Addressing the challenges of food security requires a renewed effort on developing agriculture in India. The country is one of the largest producers of food grains in the world, but agriculture's share of Gross Domestic Product is only 17 percent and falling. Inefficiencies in the agriculture sector include lack of scientific information and adoption of new technologies and poor linkages between farmers and markets. Indian farmers are pre-occupied by falling water tables and the need to irrigate over 40 percent of arable land. These problems disproportionately impact farmers and rural laborers, which have particularly high rates of malnutrition and poverty. Improving agricultural productivity in India helps raise the incomes of poor rural farmers and helps mitigate global food shortages and volatile pricing. Of particular concern at the moment, is food price inflation caused by a delayed 2009 monsoon and a series of clumsy GOI policy steps that have led to reduced food supplies on the open market. The just-concluded Parliament session was disrupted by sugar farmers' protests and opposition accusations that the government was not doing enough to "control" 19 percent food price inflation. The USG is in discussions with the GOI on an Agricultural Dialogue which would focus on some of the longer-term issues surrounding agricultural productivity and marketing bottlenecks, as well as nutrition.

¶23. (U) Law and Human Rights: Deep-rooted gender inequalities continue to undermine India's potential to translate its economic growth into inclusive development. Despite progressive laws and policies, much more remains to be done. One in three Indian women faces some sort of domestic violence, the sex ratio of female to male children is one of the lowest in the world, and almost 50 percent of girls marry before the legal age of 18. There are an estimated three million commercial sex workers, of which, approximately 40-45 percent are children, largely girls.

India is ranked 113 out of 130 countries by the World Economic Forum's (WEF) 2008 Gender Gap Index, and is among the ten worst gender biased economies in the world. USAID's access to justice program works with Indian NGOs to advocate for legal and institutional reforms; shift popular attitudes on issues like dowry and sex selective abortion; and increase access to legal rights information and redressal services.

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